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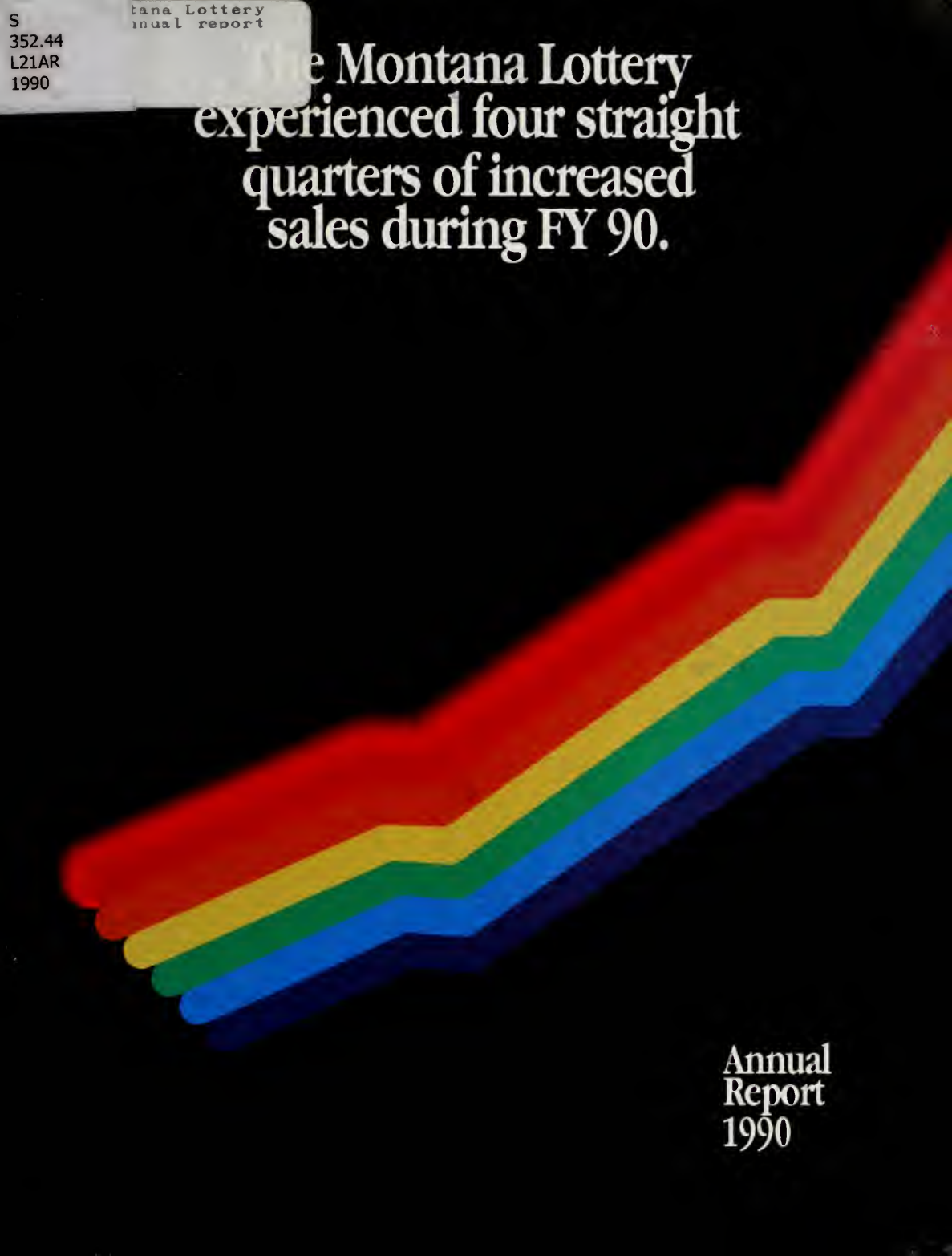
# e Montana Lottery experienced four straight quarters of increased sales during FY 90.



Annual Report 1990

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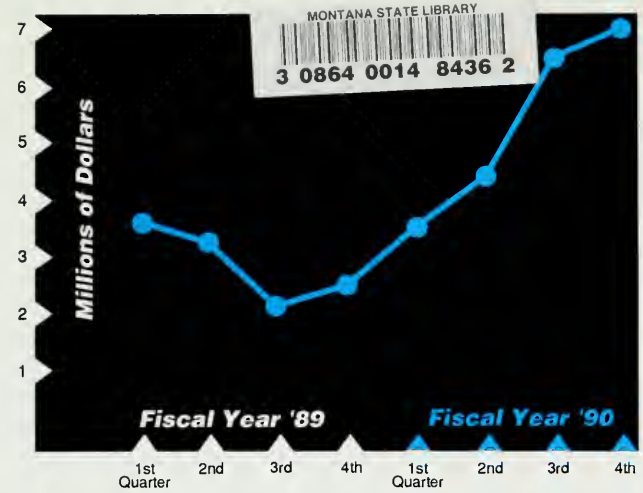


The Montana Lottery experienced four straight quarters of increased sales during FY 90. (From $2.5 million to $7 million) Total sales for the year were $21.5 million.

# THE MONTANA LOTTERY

REBO

**Zoann Attwood,**
Director

The Lottery is an interesting place to work. It's a beehive of activity where things happen very quickly. The excitement comes from anticipating what's next and the satisfaction is in seeing a project from inception to completion. FY 1990 was a year of accomplishments for the Lottery. The hard working and dedicated staff and lottery commissioners can take credit for a job well done. It's a pleasure to be associated with people who have such a commitment to purpose. I look forward with great enthusiasm to the coming year.

Zoann Attwood

Zoann Attwood

**Pat DeVries,**
Chairman, Polson

**Bill Ware,**
Helena

**Becky Erickson,**
Glasgow

**Ward Shanahan,**
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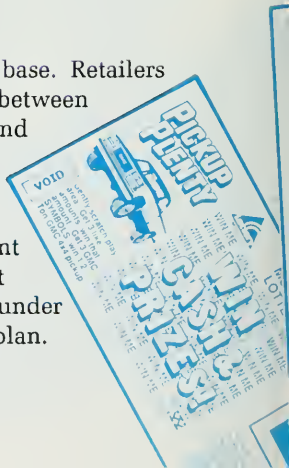
Profit for FY90 of $4,168,858 was included in the statewide equalization aid for Montana schools. Lottery profits are transferred quarterly to the State Office of Public Instruction. After three years of operation, over $15 million has been earned for education in the state.

Montana Lottery winners claimed $10.2 million in prizes. Largest single winner was Danny Hopper, from Fort Smith whose total prize winnings were $3,000,000 on the Lotto* America game. Hopper was paid $120,000 May 23, 1990. He will receive an identical check each year for the next twenty years.

850 lottery retail outlets shared $1.3 million from retailer commissions. A retailer incentive bonus plan allows for an increase in commission based on an incremental increase in instant ticket sales above a sales base. Retailers earn between 5% and 10% on each instant ticket sold under this plan.

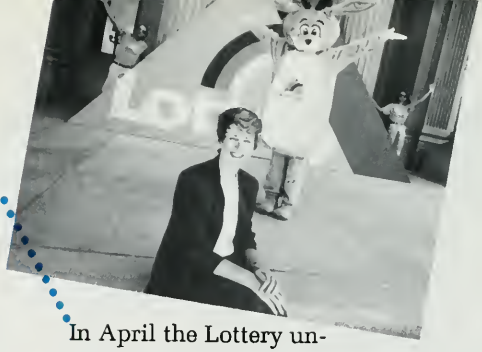


In May, Governor Stephens appointed Zoann Attwood, formerly of Great Falls, to become Director of the Montana Lottery.

Pickup Plenty was the most popular of the eight instant ticket games offered to lottery players. The award winning game offered a deluxe GMC 4x4 pickup truck as the top prize in the scratch game. Instant tickets accounted for $11.6 million in sales for FY 90.

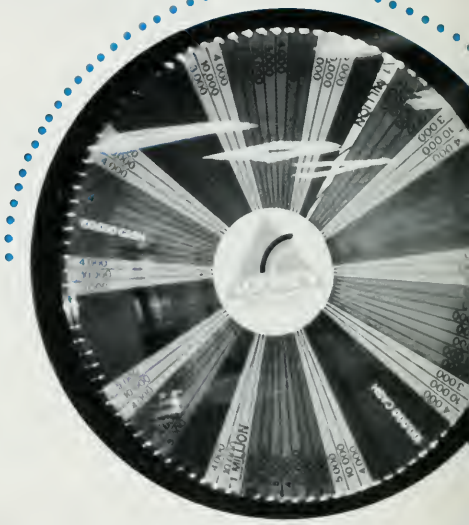
**54**

Katherine Summers (pictured above) from Basin won $1,740,000 on January 13, 1990 becoming Montana's first Lotto jackpot winner. The Montana Lottery introduced the Lotto*America game on November 9, 1989. The multi-state lottery game offers players a chance to select six numbers out of a field of 54. Drawings are held each Wednesday and Saturday evening. Odds of winning the top jackpot prize are one in 12.9 million. Over 13,000 players shared in Lotto prize winnings of $5.5 million.



In April the Lottery unveiled it's new mascot of good luck and good fortune, Jackpot Jackalope.

Montana Lottery won two national marketing awards conducted by Gaming and Wagering Business. One for best overall marketing campaign (Pickup Plenty) and one for best brochure (Lotto).



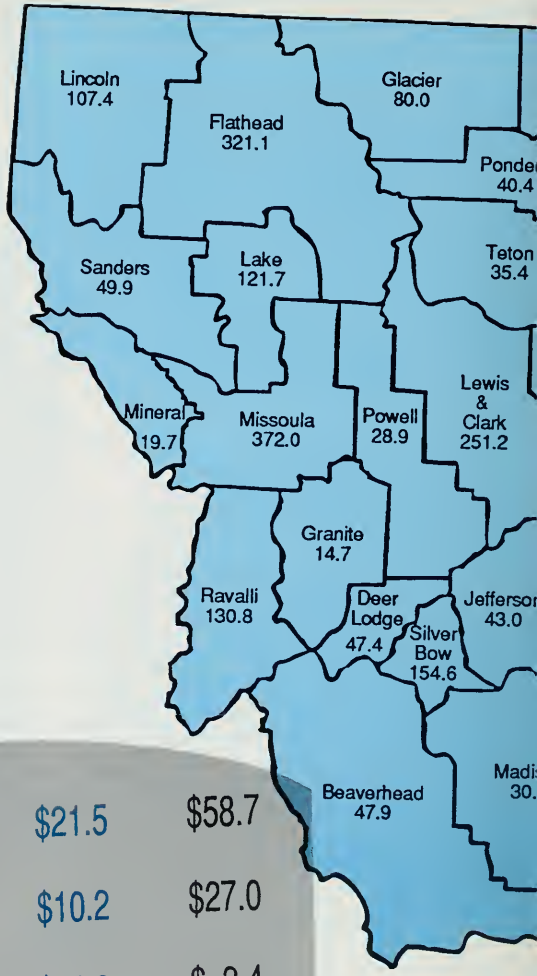
The Big Spin wheel was retired on December 31, 1989. The wheel was purchased by the British Columbia Lottery Corporation for their game "Spin of Fortune."

Summertime promotions were held at various horse racing events and Pioneer league baseball games to introduce the Lottery to new players and to reacquaint former players to the change in the Lottery's products.

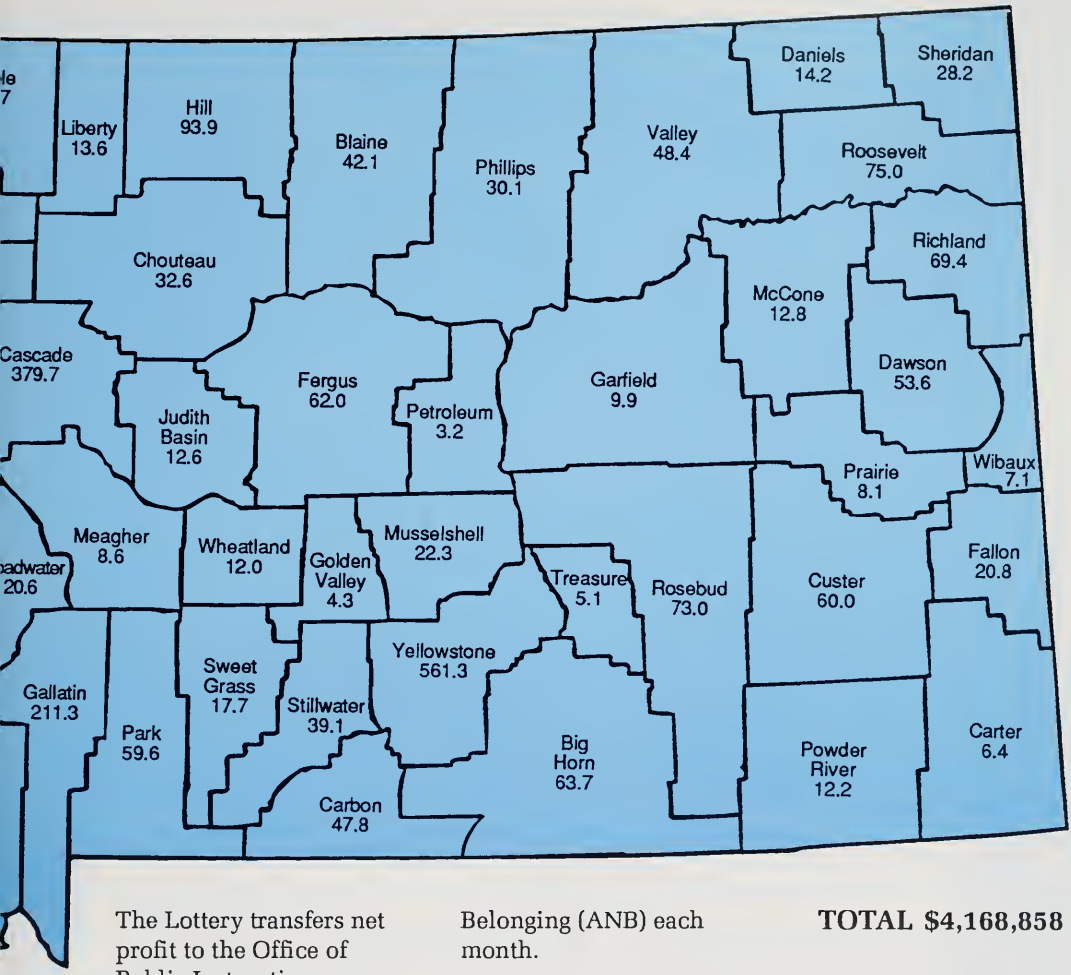
The BIG WIN program began January 3, 1990 and held its first $200,000 giveaway in Missoula in April. Ten finalists shared in the prize winnings.

The Montana Lottery's public approval rating is 66% according to a December 1989 *Great Falls Tribune* poll. This is nearly identical to the 69% of Montanans who voted for the Lottery on the November 1986 ballot.

# WHERE THE MONEY GOES




| | | | | |
|---|---|---|---|---|
| Sales | $25.6 | $11.6 | $21.5 | $58.7 |
| Prizes | $11.5 | $ 5.3 | $10.2 | $27.0 |
| Commissions | $ 1.4 | $ .7 | $ 1.3 | $ 3.4 |
| Operations | $ 4.5 | $ 2.7 | $ 5.8 | $13.0 |
| Proceeds to Schools | $ 8.3 1st year 87-88 | $ 2.8 2nd year 88-89 | $ 4.2 3rd year 89-90 | $15.3 TOTAL |




The Lottery transfers net profit to the Office of Public Instruction on a quarterly basis. This is added to all other money for statewide equalization aid for Montana's elementary and secondary schools and distributed by Average Number Belonging (ANB) each month.

The map shows an estimate of how much each county received from the Montana Lottery profits for the fiscal year ending June 30, 1990 (in thousands of dollars).

**TOTAL $4,168,858**

**The Montana Lottery is proud to have earned $15,319,443 for Montana schools in the three years of its operation.**

Junkermier · Clark
Campanella · Stevens · P.C.
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

Commissioners
Montana State Lottery
Helena, Montana

We have audited the accompanying balance sheets of Montana State Lottery as of June 30, 1990, and 1989, and the related statements of revenue, expense, and changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montana State Lottery as of June 30, 1990, and 1989, and the results of its operations, and cash flows for the year then ended in conformity with generally accepted accounting principles.

*Junkermier, Clark, Campanella, Stevens, PC*

Helena, Montana
September 7, 1990



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Missoula, MT 59807 • 145 W. Front, Suite 3 • P.O. Box 8021 • 406 543 4148

# Balance Sheets

## ASSETS

| | June 30 1990 | 1989 |
|---|---|---|
| ***CURRENT ASSETS*** | | |
| Cash and cash equivalents | $1,341,235 | $ 786,702 |
| Accounts receivable | 771,995 | 664,497 |
| Inventory | 108,456 | 133,974 |
| Prepaid expenses | 1,928 | 1,338 |
| Employee advances | 5,940 | 5,000 |
| | 2,229,554 | 1,591,511 |
| ***FIXED ASSETS*** | | |
| Computer, furniture and equipment | 772,183 | 737,014 |
| Computer software | 840,400 | 840,400 |
| | 1,612,583 | 1,577,414 |
| Less: | | |
| Accumulated depreciation and amortization | (846,062) | (577,866) |
| | 766,521 | 999,548 |
| ***OTHER ASSETS*** | | |
| Advertising license fee, net of accumulated amortization of $47,857 in 1990 and $11,209 in 1989 | 52,143 | 88,791 |
| ***TOTAL ASSETS*** | $3,048,218 | $2,679,850 |

## LIABILITIES & FUND EQUITY

| | | |
|---|---|---|
| ***CURRENT LIABILITIES*** | | |
| Long-term debt due within one year | $ 165,284 | $ 189,204 |
| Accounts payable and accruals | 329,526 | 85,663 |
| Due to State Superintendent of Public Instruction | 1,519,520 | 306,410 |
| Due to other state agencies | 76,430 | 65,422 |
| Accrued compensated absences | 94,392 | 74,789 |
| Estimated prizes payable | 695,144 | 1,505,143 |
| Deferred on-line revenue | 20,029 | — |
| Allowance for ticket returns | 147,893 | 287,964 |
| | 3,048,218 | 2,514,595 |
| ***LONG-TERM DEBT,*** net of current portion | — | 165,284 |
| ***FUND EQUITY (DEFICIT)*** | | |
| Unreserved retained earnings (deficit) | — | (29) |
| ***TOTAL LIABILITIES & FUND EQUITY*** | $3,048,218 | $2,679,850 |

*See the accompanying independent auditors' report and the notes to financial statements.*

# Statements of Revenue, Expense and Changes in Retained Earnings

| | Years Ended June 30 1990 | 1989 |
|---|---|---|
| ***OPERATING REVENUE*** | | |
| Instant ticket games | $11,619,715 | $11,644,061 |
| On-line games | 9,890,070 | — |
| License fees | 4,150 | 3,600 |
| | 21,513,935 | 11,647,661 |
| ***OPERATING EXPENSE*** | | |
| Prizes - instant ticket games | 5,549,622 | 5,300,097 |
| Prizes - on-line games | 4,639,706 | — |
| Retailer commissions | 1,352,477 | 669,313 |
| Cost of instant tickets sold | 552,884 | 630,843 |
| On-line vendor fees | 2,358,147 | — |
| Personal services | 919,490 | 905,375 |
| Contracted services | 364,667 | 272,668 |
| Advertising | 779,968 | 231,536 |
| Amortization | 204,747 | 179,289 |
| Depreciation | 118,258 | 114,994 |
| Supplies and materials | 103,051 | 71,589 |
| Rent and utilities | 95,280 | 93,969 |
| Communications | 67,710 | 64,193 |
| Travel | 41,706 | 35,877 |
| Repairs and maintenance | 83,709 | 76,313 |
| Management service fees | 78,172 | 71,446 |
| On-line operating fees | 25,788 | — |
| Other | 29,964 | 15,148 |
| | 17,365,346 | 8,732,650 |
| ***NET OPERATING INCOME BEFORE NONOPERATING EXPENSE & TRANSFERS*** | 4,148,589 | 2,915,011 |
| ***NONOPERATING REVENUE (EXPENSE)*** | | |
| Interest income | 25,825 | — |
| Interest expense | (540) | (913) |
| Loss on sale of fixed assets | (4,987) | — |
| Operating transfers to State Superintendent of Public Instruction | (4,168,858) | (2,774,692) |
| ***NET INCOME*** | 29 | 139,406 |
| Reserved (unreserved) retained earnings (deficit) at beginning of year | (29) | (139,435) |
| ***RESERVED (UNRESERVED) RETAINED EARNINGS (DEFICIT) AT END OF YEAR*** | $ — | $ (29) |

*See the accompanying independent auditors' report and the notes to financial statements.*

# Statements of Cash Flows

| | Years Ended June 30 1990 | 1989 |
|---|---|---|
| ***CASH FLOWS FROM OPERATING ACTIVITIES*** | | |
| Net operating income before nonoperating expense and transfers | $ 4,148,589 | $ 2,915,011 |
| Adjustment to reconcile net operating income to net cash provided by operating activities: | | |
| Amortization and depreciation | 323,005 | 294,283 |
| Decrease (Increase) in: | | |
| Accounts receivable | (107,498) | (442,197) |
| Inventory | 25,518 | 65,243 |
| Prepaid expenses | (590) | 20,760 |
| Employee advances | (940) | 50 |
| Increase (Decrease) in: | | |
| Accounts payable & accruals | 243,863 | 35,011 |
| Due to other state agencies | 11,008 | (23,514) |
| Accrued compensated absences | 19,603 | 84 |
| Estimated prizes payable | (809,999) | (1,870,272) |
| Deferred on-line revenue | 20,029 | — |
| Allowance for returned tickets | (140,071) | (3,456) |
| | 3,732,517 | 991,003 |
| ***CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES*** | | |
| Operating transfers out to State Superintendent of Public Instruction | (2,955,748) | (3,700,759) |
| Acquisition of advertising license fee | — | (100,000) |
| | (2,955,748) | (3,800,759) |
| ***CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES*** | | |
| Payment of long-term debt | (189,204) | (188,830) |
| Acquisition of fixed assets | (66,033) | (2,250) |
| Proceeds from sale of fixed assets | 7,716 | — |
| Interest paid on fixed assets acquisition contract | (540) | (913) |
| | (248,061) | (191,993) |
| ***CASH FLOWS FROM INVESTING ACTIVITIES*** | | |
| Interest earned on cash equivalents | 25,825 | — |
| ***NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS*** | 554,533 | (3,001,749) |
| Cash and cash equivalents at beginning of year | 786,702 | 3,788,451 |
| ***CASH AND CASH EQUIVALENTS AT YEAR END*** | $ 1,341,235 | $786,702 |

*See the accompanying independent auditors' report and the notes to financial statements.*

# Notes to Financial Statements
## June 30, 1990 & 1989

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization.** The Montana State Lottery was created in November 1986 by a referendum vote of the people of Montana. Section 23-5-1001, Montana Code Annotated (MCA) establishes the provision of the code under which the Montana State Lottery operates. The Montana Lottery is operated by a five member commission consisting of Montana residents appointed by the Governor. The Commission, by law, has the power to operate a state lottery, determine the types and forms of lottery games, set the ticket price, number and size of prizes, conduct lottery drawings, enter into agreements to offer regional lottery games and prepare financial reports.

Disposition of revenue is a minimum of 45% for prizes, a minimum of 5% for commissions to sales agents, payment of operating expenses and the remaining revenue to the State Superintendent of Public Instruction.

The State of Montana provides certain services to the Lottery covering: central payroll, accounting, self-insurance, communication, motor pool and various other services. The costs charged to the Lottery for these services, approximately $1,265,000 and $1,140,000 in fiscal years ended June 30, 1990, and 1989, respectively.

**Reporting Entity.** The Lottery, a division within the Montana Department of Commerce, is considered a component unit of the oversight unit known as the State of Montana. There are no component units to be included with the Lottery as a reporting agency.

**Basis of Accounting.** The Lottery utilizes the accrual basis of accounting and is classified as an enterprise fund of the governmental proprietary fund type. Enterprise funds account for operations: a) financed and operated similar to private business enterprises, where the intent of the Legislature is that costs are to be financed or recovered primarily through user charges, or b) where the Legislature has decided that periodic determination of revenue earned, expenses incurred or net income is appropriate.

**Revenue Recognition.** Sales of lottery instant tickets are made to licensed retailers, who in turn sell the tickets to the public. Retailers receive a minimum 5% commission. Revenue is recognized when the tickets are delivered to the retailers. Tickets not sold by the retailer may be returned to the Lottery for credit. Sales are reduced for estimated ticket returns.

Sales of on-line lottery tickets, starting in early November, 1989, are made by licensed retailers to the public with the use of computerized terminals. Retailers receive a 5% commission. Revenue is recognized on the biweekly drawing dates. Tickets sold in advance for future drawings are recorded as deferred revenue until the ticket becomes valid for a drawing.

**Prizes.** Prize expense is recognized based on the predetermined prize structure for each instant ticket and on-line game. Free tickets are recorded as a reduction in revenue and not as prize expense.

**Cash Equivalents.** Cash equivalents consist of interest-bearing deposits with the Montana Board of Investments in the State's short-term investment pool and cash on deposit with the State Treasurer which is part of the State's pooled cash. These funds are highly liquid and may be drawn on daily.

**Inventory.** Inventories consist of tickets and supplies. Ticket inventory includes lottery instant tickets stored in the warehouse and with marketing representatives. The tickets are carried at cost using a specific identification method. Tickets are charged to cost of sales when sold and unsold tickets are charged to cost of sales upon the end or cancellation of a game. Supply inventory is carried at cost and expensed as used.

**Fixed Assets.** Fixed assets are recorded at cost and depreciation or amortization is computed using the straight-line basis over the following estimated useful lives:

| | |
|---|---|
| Computer | 6 years |
| Software | 5 years |
| Vehicles | 4 years |
| Furniture & equipment | 6 -10 years |

**Advertising License Fee.** Advertising license fee is recorded at cost and amortization is computed using the straight-line basis over a 3-year estimated useful life.

**Accounts Receivable.** Accounts receivable represent amounts due the Lottery for purchased tickets. These amounts are electronically transferred within 28 to 34 days of instant tickets purchased, and weekly for on-line tickets purchased. The Lottery grants credit to licensed retailers throughout the State of Montana. Bad debts are nominal and no allowance for doubtful accounts has been established.

**Compensated Absences.** State employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Vacation leave may be accumulated to not exceed 2 times the maximum annual leave. Sick leave is earned at 12 days a year with no maximum accumulation. Upon retirement or termination, an employee is paid 100% for unused vacation and 25% for unused sick leave.

**Change in Presentation.** The June 30, 1990, financial statements include a statement of cash flows showing cash and cash equivalents provided and used by operating, investing and financing activities in place of a statement of changes in financial position as presented in prior years. June 30, 1989, financial statements have been restated to conform with current presentation.

### 2. CASH AND CASH EQUIVALENTS

Cash is as follows for June 30:

| | |
|---|---|
| Cash on deposit with State Treasurer | |
| 1990 | $ 506,585 |
| 1989 | $ 776,552 |
| Cash on deposit in short term investment pool | |
| 1990 | $ 824,500 |
| 1989 | $ — |
| Cash in revolving check account | |
| 1990 | $ 10,000 |
| 1989 | $ 10,000 |
| Petty cash | |
| 1990 | $ 150 |
| 1989 | $ 150 |
| Total | |
| 1990 | $1,341,235 |
| 1989 | $786,702 |

Cash on deposit with State Treasurer and investment pool is part of pooled cash which is not separately identifiable as to specific types of securities. See the statewide audit for the level of risk associated with the cash and cash equivalents.

### 3. LONG-TERM DEBTS

Long-term debts consist of the following for June 30:

| | |
|---|---|
| Installment purchase of Instant Lottery System software payable in monthly payments of $11,672 including no interest through March 1990 and $23,344 including no interest through February, 1991. | |
| 1990 | $ 163,411 |
| 1989 | $ 350,167 |
| Lease purchase of copier payable in monthly payments of $249 including interest at 16.7% through February, 1991. | |
| 1990 | $ 1,873 |
| 1989 | $ 4,321 |
| Sub total | |
| 1990 | $ 165,284 |
| 1989 | $ 354,488 |
| Less portion due within one year | |
| 1990 | $ 165,284 |
| 1989 | $ 189,204 |
| Long-term portion | |
| 1990 | $ — |
| 1989 | $ 165,284 |

### 4. OBLIGATION TO TRANSFER FUNDS TO STATE SUPERINTENDENT OF PUBLIC INSTRUCTION

The remaining portion of gross revenue not used for payment of prizes, commissions, and operating expenses is transferred quarterly from the Lottery to the State Superintendent of Public Instruction. At June 30, 1990 and 1989, $1,519,520 and $306,410, respectively, were payable to the State Superintendent of Public Instruction. Operating transfers of $4,168,858 and $2,774,692 were reported during the fiscal year ended June 30, 1990 and 1989, respectively.

### 5. LEASE COMMITMENTS

The Lottery has a lease for office and warehouse space in Helena, Montana. Lease expense included in the operating expenses is $81,600 for the fiscal year ended June 30, 1990 and 1989. Minimum future lease payments, under all non-cancellable leases are as follows:

| Fiscal Years Ended June 30 | |
|---|---|
| 1991 | $81,600 |
| 1992 | 54,400 |
| | $136,000 |

### 6. EMPLOYEE RETIREMENT SYSTEM

The Lottery and its employees make contributions to the Montana Public Employees Retirement System (PERS) defined benefit plan. The Lottery is required to contribute for full time employees at the rate of 6.417% of annual compensation under state statute. Employees are required to contribute 6% of annual compensation. Part-time employees have an option to belong to the retirement plan, depending upon hours worked. The Montana Public Employees Retirement system does not segregate financial information for each participating entity.

The total number of lottery employees covered during the year ended June 30, 1990 and 1989 was 37 and 31 respectively. The total

payroll for the employees was $739,699 in 1990, and $730,400 in 1989. The Lottery's contributions were $44,919 and $48,870 for the years ended June 30, 1990 and 1989. Benefit eligibility is age 60 with at least 5 years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least 5 years of service. Monthly retirement benefits are determined by taking 1/60 times the number of years of service times the final average salary. Members' rights become vested after 5 years of service.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the system's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The Lottery is unable to determine the actuarial present value of credited projected benefits and net assets available for benefits since the information is available only on a total State basis, not agency basis.

The pension benefit obligation at June 30, 1989, for the State system as a whole was $1,042,198,000. The system's net assets available for benefits at cost on June 30, 1989, were $762,195,000 leaving an overall unfunded pension benefit obligation of $280,003,000. The Lottery's 1990 contribution represented approximately .17% of total June 30, 1989, contributions required of all participating entities. The Lottery is not responsible for any state system unfunded liability.

Ten-year historical trend information showing the State system's progress in accumulating sufficient assets to pay benefits when due is presented in the system's June 30, 1989, annual financial report. Only the first two years of the required 3-year trend information is available.

## 7. DEFERRED COMPENSATION PLAN

The Lottery's employees are eligible to participate in the State of Montana's deferred compensation plan. The State of Montana administers the plan by contractual arrangement with Nationwide Insurance.

## 8. CONTRACTUAL ARRANGEMENTS

**Instant Tickets.** The Lottery has signed agreements to purchase instant game tickets from Dittler Brothers, Inc., through March 9, 1991. This contract may be terminated by the Lottery with proper notification.

**Computer Hardware and Software Maintenance.** The Lottery has signed an egreement for computer hardware and software maintenance from Stratus Computer, Inc. for $4,433 per month.

**On-line Vendor.** The Lottery has signed a contract with Control Data Corporation to provide on-line terminals, central computers, and telecommunication network through November 9, 1994. The contract provides for payments to be based on a percentage of weekly sales.

## 9. PRIZE CONTINGENCIES

Certain Big Spin prizes awarded are payable to the winners in annual installments of 17 to 20 years, with the first payment being made by the Lottery. The Lottery has entered into agreements with an insurance company under which purchased annuities will provide payments corresponding to the Lottery's obligation to these prize winners. Because it is the intent of the Lottery that the insurance company will make future installment payments directly to each prize winner, neither the present value of the annuities nor the present value of future payments are reflected in the accompanying financial statements. The Lottery would be liable for such future payments in the amount of $4,240,735 if the insurance company was to default on their payments.

400 copies of this public document were published at an estimated cost of $5 per copy, for a total cost of $2,000, which includes $2,000 for printing and $0 for distribution.

Montana Lottery
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